23 April 2020

Next Fifteen Communications Group plc

Results for the year ended 31 January 2020

Next Fifteen Communications Group plc ("Next 15" or the "Group"), the digital communications group, today announces its results for the year ended 31 January 2020.

Financial results for the year to 31 January 2020

	Year ended 31 January 2020 £m	Year ended 31 January 2019 £m	Growth in results
Adjusted results[1]			
Net revenue	**248.5**	**224.1**	**11%**
Operating profit after interest on finance lease liabilities[2]	**40.9**	**37.0**	**11%**
Operating profit margin[3]	**16.4%**	**16.5%**	
Profit before tax	**40.2**	**36.0**	**12%**
Diluted EPS (p)	**34.8p**	**33.1p**	**5%**
Statutory results			
Revenue	**300.7**	**272.4**	**10%**
Operating profit	**19.4**	**20.7**	**(6%)**
Profit before tax	**5.6**	**18.8**	**(70%)**
Diluted EPS (p)	**2.5p**	**16.3p**	**(85%)**
Net cash generated from operations	**49.5**	**38.4**	**29%**

[1] Adjusted results have been presented to provide additional information that may be useful to shareholders through facilitating comparability with industry peers. Adjusted results are reconciled to statutory results within notes 2 and 3.
[2] The application of IFRS 16 has led to operating lease charges previously recognised within operating profit to now be partially recognised in interest costs. We have therefore presented the current period operating profit after interest on finance lease liabilities to give a comparable figure to the prior year.
[3] Operating profit margin is calculated using the adjusted operating profit after interest on finance lease liabilities in the current period in order to be comparable to the prior period. Adjusted operating profit margin is calculated based on net revenue.

Highlights

- Group net revenue growth of 11% to £248.5m
- Adjusted profit before tax up 12% to £40.2m
- Adjusted diluted earnings per share increased by 5% to 34.8p
- Net cash inflow from operations increased to £49.5m (2019: £38.4m)
- Strong balance sheet with net debt of £9.3m at 31 January 2020 (2019: £5.2m)
- We have not seen a material impact on the Group's trading performance from Covid-19 to date but are anticipating our revenues and profits will be affected from May as some clients reduce spend due to the uncertainty. The timing of any recovery is hard to predict and therefore we are managing the business very tightly, whilst being mindful of any post Covid-19 opportunities
- Significant client wins including DuPont, Google Cloud, O2

Commenting on the results, Chairman of Next 15, Richard Eyre said:

Over this year we have continued to deploy the highly effective marketing tools afforded by data and technology. This is no hasty pivot from specialist communications consulting, which was at the core of our business for our listing in 2005, but a continued evolution by acquisition and organic change, to ensure that our offer to customers is as contemporary as it is effective. This strategy continues to serve us well.

Looking to the current financial year, we have not seen a material impact on the Group's trading performance from Covid-19 to date but are anticipating that our revenues and profits from some of our businesses will be materially affected from May as some clients reduce or delay spend due to the pandemic. On the other hand, we are expecting some businesses to see little or no impact. The timing of any recovery is hard to predict and therefore we are managing the business very tightly, whilst being mindful of any post Covid-19 opportunities.

Longer term, the Board remains confident of the Group's underlying prospects. We believe we have the quality of people, the strategy and the financial strength to continue to outperform our marketplace.

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Notes:

Net revenue
Net revenue is calculated as revenue less direct costs as shown on the Consolidated Income Statement.

Organic net revenue growth
Organic net revenue growth is defined as the net revenue growth at constant currency excluding the impact of acquisitions and disposals in the last 12 months.

Adjusted operating profit margin
Adjusted operating profit margin is calculated based on the operating profit after interest on finance lease liabilities as a percentage of net revenue.

This announcement contains inside information as defined in Article 7 of the Market Abuse Regulation.

Chairman and Chief Executive's Statement

Current Trading and Impact of Covid-19

Next 15's evolution towards a data, digital and consulting Group has put us in a better place to deal with the impact of Covid-19. Whilst we are not immune to macroeconomic forces, we are fortunate to have a large percentage of our revenues derived from business to business technology customers and only a small percentage from more business to consumer clients in the travel, hospitality and leisure sectors.

In terms of current trading, we have yet to see any material impact from Covid-19, with some clients switching spend away from live events into digital marketing and lead generation. The Group continues to win new work and has recently added DuPont, Google Cloud, O2 as new clients. However, we do anticipate our business will be significantly impacted from May as clients reduce spend due to the uncertainty. The Group currently expects two-thirds of the portfolio will see a negative impact from Covid-19, with revenues impacted by 5-25% depending on sector and specialism. The Group currently sees the rest of the portfolio as largely unaffected due to nature of product offering and customer base. This is our latest estimate of the impact this unfolding situation will have on trading for the year ahead and we will update the market at our AGM in June.

Given the macroeconomic backdrop, the Group has already drawn up contingency plans and taken a series of steps to reduce capital expenditure and short-term discretionary spending. We have adopted relevant Government employee furlough and tax deferral schemes in all the territories we operate in, and the Board and senior executives have taken pay reductions. Lastly, the Group has decided to suspend the final dividend, although it fully intends to resume dividend payments once the macroenvironment improves.

Given the measures outlined above, the Board is confident that Next 15 is well positioned to withstand this unprecedented period and can continue to progress with its growth strategy. Whilst the Group is actively working on how to best manage the current situation, it is also looking to the 'Post Covid' era to ensure it can capitalise on the shifts an event of this nature is likely to create in the market, including appropriate acquisition opportunities, product development and operational improvements.

Review of Adjusted Results to 31 January 2020

ADJUSTED RESULTS[1]	**Year Ended 31 January 2020 £'000**	**Year Ended 31 January 2019 £'000**
Net revenue	**248,469**	**224,093**
EBITDA	**56,764**	**41,733**
Operating profit after interest on lease liabilities	**40,860**	**36,956**
Operating profit margin	**16.4%**	**16.5%**
Net finance expense	**(827)**	**(1,017)**
Share of profits from associate	**204**	**65**
Profit before income tax	**40,237**	**36,004**
Tax rate on adjusted profit	**20%**	**20%**
Diluted adjusted earnings per share	**34.8p**	**33.1p**

[1] Adjusted results have been presented to provide additional information that may be useful to shareholders through facilitating comparability with industry peers. Adjusted results are reconciled to statutory results within notes 2 and 3.

The last 12 months have been a period of progress and change across the Group. We have grown our total Group net revenues by almost 11% although they declined by 2% on an organic basis due to the previously flagged challenges at Beyond and Archetype. Excluding these two brands our organic growth was 10.5%. The operating profit margin dropped marginally to a still impressive 16.4%. Our Twogether, ODD, M Booth and Activate agencies have been stand out performers, whilst we have achieved solid performances across most of the portfolio.

In addition, there have been a number of operational improvements including progress on the Archetype brand particularly in the US. Beyond took longer to fix than we had hoped but trading in Feb and March 2020 has been encouraging with a return to profitability in both months. Also, we consolidated our market research agencies under the Savanta brand. This has had the benefit of simplifying the Group's operating structure as well as increasing our underlying operating margin.

For the year to 31 January 2020, the Group delivered net revenue of £248.5m (2019: £224.1m), adjusted operating profit of £40.9m (2019: £37.0m), adjusted profit before income tax of £40.2m (2019: £36.0m) and adjusted diluted earnings per share of 34.8p (2019: 33.1p). Statutory revenue for the year was £300.7m (2019: £272.4m) which resulted in operating profit of £19.4m compared with £20.7m in the previous year. Diluted earnings per share were 2.5p, compared with 16.3p on the previous year.

The Group adjusted operating margin reduced marginally to 16.4% from 16.5% in the prior year.

Segment adjusted performance

	Brand Marketing £'000	Data and Analytics £'000	Creative Technology £'000	Head Office £'000	Total £'000
Year ended 31 January 2020					
Revenue	**160,242**	**59,446**	**81,023**	**–**	**300,711**
Net revenue	**135,036**	**45,054**	**68,379**	**–**	**248,469**
Adjusted operating profit / (loss)	**30,750**	**12,722**	**8,035**	**(9,051)**	**42,456**
Adjusted operating profit / (loss) after interest on lease liabilities	**29,930**	**12,697**	**7,774**	**(9,541)**	**40,860**
Adjusted operating profit margin	**22.2%**	**28.2%**	**11.4%**	**–**	**16.4%**
Organic revenue (decline) / growth	**(5.7)%**	**19.3%**	**(2.1)%**	**–**	**(2.0)%**
Year ended 31 January 2019					
Revenue	158,316	33,757	80,340	–	272,413
Net revenue	133,163	23,209	67,721	–	224,093
Adjusted operating profit / (loss)	29,580	7,171	9,489	(9,284)	36,956
Adjusted operating profit margin	22.2%	30.9%	14.0%	–	16.5%
Organic revenue growth	*0.1%*	*30.6%*	*17.0%*	–	*6.4%*

Brand marketing includes our Archetype, OutCast, M Booth, Blueshirt and Publitek agencies. During the year we acquired Health Unlimited based in New York and rebranded it as M Booth Health. Also, we acquired Nectar, a San Francisco based Tech Comms agency. The segment produced a satisfactory performance, with expected disruption from the launch of Archetype, causing an organic decline, offset by good trading from M Booth, Blueshirt and Publitek. Total net revenue increased by 1.4% to £135.0m with an organic decline of 5.7% but the adjusted operating profit increased by 1.2% to £29.9m at a held operating margin of 22.2%. Excluding Archetype, the segment's organic net revenue growth was 2.8%.

The **Data and analytics** segment includes Savanta, Encore and our recently acquired Activate and Planning-inc agencies. During the year we merged Encore with Twogether, our B2B digital marketing agency. The segment achieved a very strong performance with net revenue of £45.1m, with an organic revenue growth of 19.3% and delivered adjusted operating profit of £12.7m at an operating margin of 28.2%.

The **Creative technology** segment includes our ODD, Elvis, Brandwidth, Beyond, Twogether, Agent3, Velocity and Palladium agencies. Palladium was acquired in April 2019. The segment delivered a mixed performance with Twogether, ODD and Agent3 excelling. Overall, the segment delivered net revenue growth of 1% to £68.4m with organic net revenue decline of 2.1%. Excluding Beyond, the segment's organic net revenue growth was 20.3%. The adjusted operating profit declined by 18% to £7.8m at an operating profit margin of 11.4%.

Regional adjusted performance

	UK £'000	Europe & Africa £'000	US £'000	Asia Pacific £'000	Head Office £'000	Total £'000
Year ended 31 January 2020						
Revenue	**119,551**	**10,631**	**153,481**	**17,048**	**–**	**300,711**
Net revenue	**97,377**	**8,820**	**127,563**	**14,709**	**–**	**248,469**
Adjusted operating profit / (loss)	**20,366**	**1,619**	**27,155**	**2,367**	**(9,051)**	**42,456**
Adjusted operating profit / (loss) after interest on lease liabilities	**20,094**	**1,587**	**26,421**	**2,299**	**(9,541)**	**40,860**
Adjusted operating profit margin	**20.6%**	**18.0%**	**20.7%**	**15.6%**	**–**	**16.4%**
Organic revenue (decline)/growth	**0.3%**	**0.4%**	**(4.6)%**	**4.8%**	**–**	**(2.0)%**
Year ended 31 January 2019						
Revenue	109,161	10,267	136,290	16,695	–	272,413
Net revenue	83,528	8,735	117,911	13,919	–	224,093
Adjusted operating profit	20,482	1,504	22,047	2,207	(9,284)	36,956
Adjusted operating profit margin	24.5%	17.2%	18.7%	15.9%	–	16.5%
Organic revenue growth/(decline)	*15.5%*	*7.3%*	*2.8%*	*(2.1%)*	–	*6.4%*

Our US businesses performed steadily led by our M Booth and Activate brands. In the year to 31 January 2020, total US net revenues grew by 8.2% to £127.6m from £117.9m which equated to an organic decline of 4.6%, taking account of movements in exchange rates. Organic growth has been impacted in the short term by difficult trading at Beyond and the expected disruption from the merger of Text and Bite to create Archetype. We acquired M Booth Health and Nectar in the year which have both made positive contributions. The adjusted operating profit from our US businesses was £26.4m compared with £22.0m in the previous 12 months to 31 January 2019.

The UK businesses have delivered a resilient performance over the last 12 months, with net revenue increasing by 16.6% to £97.4m from £83.5m in the prior period. This growth was due to exceptionally strong performances from our Twogether, ODD, Agent3 and Savanta agencies. The adjusted operating profit was £20.1m from £20.5m in the prior year and organic growth was 0.3% due to slow trading from Beyond and Archetype UK with the adjusted operating margin falling from 24.5% in the prior period to 20.6%.

We have delivered an encouraging performance in EMEA with good growth from Spain and France. Net revenue increased by 1% to £8.8m (2019: £8.7m) and adjusted operating profit increased to £1.6m at an improved adjusted operating margin of 18.0%.

In the APAC region net revenue increased by 5.7% to £14.7m (2019: £13.9m), however the operating margin decreased marginally to 15.6% from 15.9% in the prior period and the operating profit increased to £2.3m (2019: £2.2m).

Balance Sheet and Net Debt

The Group's balance sheet remains in a healthy position with net debt as at 31 January 2020 of only £9.3m (2019: £5.2m), equating to 0.2x adjusted EBITDA. The net cash inflow from operating activities for the year to 31 January 2020 increased to £47.8m from £37.2m in the prior period. Our management of working capital improved with an inflow of £1.7m compared with £1.2m in the prior period. This resulted in our net cash generated from operations before tax being £49.5m (2019: £38.4m).

Over the period we invested £24.2m in acquisition-related payments of which £19.5m fell in the second half, and £5.3m in capital expenditure.

Cash flow KPIs	Year to 31 January 2020 £m	Year to 31 January 2019 £m
Net cash inflow from operating activities before changes in working capital	**47.8**	**37.2**
Working capital movement	**1.7**	**1.2**
Net cash generated from operations	**49.5**	**38.4**
Income tax paid	**(6.0)**	**(6.2)**
Investing activities	**(28.3)**	**(37.2)**
Dividend paid to shareholders	**(6.8)**	**(5.2)**
Proceeds from share placing	**-**	**19.5**

The Group operates a £40m revolving credit facility ("RCF") with HSBC available until July 2022 and has a £20m term loan with £10m left to be repaid in equal instalments the last of which is in December 2021. The £40m facility is primarily used for acquisitions, although it could be used for working capital requirements and is due to be repaid from the trading cash flows of the Group. The facility is available in a combination of sterling, US dollar and euro at an interest margin dependent upon the level of gearing in the business. The Group also has a US facility of $7m (2019: $7m) which is available for property rental guarantees and US-based working capital needs.

As part of the facilities agreement, Next 15 must comply with a number of covenants, including maintaining the multiple of net bank debt before earn-out obligations to adjusted EBITDA below 1.75x and the level of net bank debt including earn-out obligations to adjusted EBITDA below 2.5x. Next 15 has ensured that it has complied with all of its covenant obligations with significant headroom.

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED INCOME STATEMENT

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

	Note	Year ended 31 January 2020	Year ended 31 January 2019
		£'000	£'000
Billings		325,353	291,037
Revenue		300,711	272,413
Direct costs		(52,242)	(48,320)
Net revenue	2	**248,469**	**224,093**
Staff costs		171,180	153,247
Depreciation		13,196	4,199
Amortisation		13,211	9,624
Other operating charges		31,469	36,346
Total operating charges		(229,056)	(203,416)
Operating profit	2	**19,413**	**20,677**
Finance expense	6	(16,672)	(6,584)
Finance income	7	2,611	4,667
Share of profit from associate		204	65
Profit before income tax	3	**5,556**	**18,825**
Income tax expense	4	(2,717)	(4,299)
Profit for the period		**2,839**	**14,526**
Attributable to:			
Owners of the parent		2,262	13,887
Non-controlling interests		577	639
		2,839	**14,526**
Earnings per share			
Basic (pence)	8	2.7	17.5
Diluted (pence)	8	2.5	16.3

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

	Year ended 31 January 2020	Year ended 31 January 2019
	£'000	£'000
Profit for the period	**2,839**	**14,526**
Other comprehensive (expense) / income:		
Items that may be reclassified into profit or loss:		
Exchange differences on translating foreign operations	(136)	2,886
Net investment hedge	(411)	(700)
	(547)	2,186
Items that will not be reclassified subsequently to profit or loss		
Revaluation of investments	(562)	(682)
Total other comprehensive (expense) / income for the period	(1,109)	1,504
Total comprehensive income for the period	**1,730**	**16,030**
Attributable to:		
Owners of the parent	1,153	15,391
Non-controlling interests	577	639
	1,730	**16,030**

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

ADJUSTED RESULTS: KEY PERFORMANCE INDICATORS

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
Net revenue	**248,469**	**224,093**
Operating charges	(191,705)	(182,360)
EBITDA	**56,764**	**41,733**
Depreciation and Amortisation	(14,308)	(4,777)
Operating profit	**42,456**	**36,956**
Interest on finance lease liabilities	(1,596)	-
Operating profit after interest on finance lease liabilities	**40,860**	**36,956**
Operating profit margin	*16.4%*	*16.5%*
Net finance expense	(827)	(1,017)
Share of profits of associate	204	65
Profit before income tax	**40,237**	**36,004**
Tax	(8,046)	(7,200)
Retained profit	**32,191**	**28,804**
Weighted average number of ordinary shares	85,284,663	79,225,075
Diluted weighted average number of ordinary shares	90,936,482	85,016,204
Adjusted earnings per share	37.1p	35.6p
Diluted adjusted earnings per share	34.8p	33.1p
Cash inflow from operating activities before working capital changes	47,794	37,212
Cash outflow on acquisition-related payments	(24,173)	(29,554)
Net debt	9,346	5,177
Dividend (per share)	2.5p	7.56p

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED BALANCE SHEET AS AT 31 JANUARY 2020 AND 2019

	Note	31 January 2020 £'000	31 January 2019 £'000
Assets			
Property, plant and equipment		14,224	15,870
Right-of-use assets	12	41,655	-
Intangible assets		155,408	126,149
Investment in equity accounted associate		232	98
Investments in financial assets		1,075	1,587
Deferred tax asset		10,967	10,521
Other receivables		809	803
Total non-current assets		224,370	155,028
Trade and other receivables		70,260	66,123
Cash and cash equivalents	9	28,661	20,501
Corporation tax asset		734	799
Total current assets		99,655	87,423
Total assets		**324,025**	**242,451**
Liabilities			
Loans and borrowings	9	33,007	20,678
Deferred tax liabilities		3,538	4,503
Lease liabilities	12	43,023	-
Other payables		16	4,622
Provisions		4,942	1,825
Deferred consideration	10	-	2,464
Contingent consideration	10	26,815	20,147
Share purchase obligation	10	2,098	128
Total non-current liabilities		113,439	54,367
Loans and borrowings	9	5,000	5,000
Trade and other payables		59,620	60,173
Lease liabilities	12	11,210	-
Provisions		1,522	1,118
Corporation tax liability		1,173	1,985
Deferred consideration	10	2,715	2,182
Contingent consideration	10	15,366	4,565
Share purchase obligation	10	1,269	1,608
Total current liabilities		97,875	76,631
Total liabilities		**211,314**	**130,998**
TOTAL NET ASSETS		**112,711**	**111,453**
Equity			
Share capital		2,163	2,089
Share premium reserve		76,019	62,993
Share purchase reserve		(2,673)	(2,673)
Foreign currency translation reserve		7,561	7,697
Other reserves		608	1,019
Retained earnings		29,618	41,404
Total equity attributable to owners of the parent		**113,296**	**112,529**
Non-controlling interests		(585)	(1,076)
TOTAL EQUITY		**112,711**	**111,453**

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

	Share capital	Share premium reserve	Share purchase reserve	Foreign currency translation reserve	Other reserves[1]	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 31 January 2018 as previously stated	**1,892**	**28,611**	**(2,673)**	**4,811**	**1,719**	**42,604**	**76,964**	**(643)**	**76,321**
Change in accounting policy (IFRS 9)[2]	-	-	-	-	-	48	48	-	48
At 1 February 2018 as restated	**1,892**	**28,611**	**(2,673)**	**4,811**	**1,719**	**42,652**	**77,012**	**(643)**	**76,369**
Profit for the year	-	-	-	-	-	13,887	13,887	639	14,526
Other comprehensive income / (expense) for the year	-	-	-	2,886	(700)	(682)	1,504	-	1,504
Total comprehensive income / (expense) for the year	-	-	-	2,886	(700)	13,205	15,391	639	16,030
Shares issued on satisfaction of vested performance shares	68	10,593	-	-	-	(10,697)	(36)	-	(36)
Shares issued on acquisitions	24	4,433	-	-	-	-	4,457	-	4,457
Shares issues on placing	105	19,356	-	-	-	-	19,461	-	19,461
Obligation to purchase non-controlling interest	-	-	-	-	-	-	-	(515)	(515)
Movement in relation to share-based payments	-	-	-	-	-	2,510	2,510	-	2,510
Tax on share-based payments	-	-	-	-	-	203	203	-	203
Dividends to owners of the parent	-	-	-	-	-	(5,243)	(5,243)	-	(5,243)
Movement due to ESOP share purchases	-	-	-	-	(12)	-	(12)	-	(12)
Movement due to ESOP share option exercises	-	-	-	-	12	-	12	-	12
Movement on reserves for non-controlling interests	-	-	-	-	-	(1,226)	(1,226)	1,226	-
Non-controlling interest purchased in the period	-	-	-	-	-	-	-	(383)	(383)
Non-controlling dividend	-	-	-	-	-	-	-	(1,400)	(1,400)
At 31 January 2019 as previously stated	**2,089**	**62,993**	**(2,673)**	**7,697**	**1,019**	**41,404**	**112,529**	**(1,076)**	**111,453**
Change in accounting policy (IFRS 16)[2]	-	-	-	-	-	(1,794)	(1,794)	-	(1,794)
Deferred tax on accounting policy change [2]	-	-	-	-	-	400	400	-	400
At 1 February 2019 as restated	**2,089**	**62,993**	**(2,673)**	**7,697**	**1,019**	**40,010**	**111,135**	**(1,076)**	**110,059**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**2,262**	**2,262**	**577**	**2,839**
Other comprehensive income / (expense) for the year	**-**	**-**	**-**	**(136)**	**(411)**	**(562)**	**(1,109)**	**-**	**(1,109)**
Total comprehensive income / (expense) for the year	**-**	**-**	**-**	**(136)**	**(411)**	**1,700**	**1,513**	**577**	**1,730**
Shares issued on satisfaction of vested performance shares	**38**	**5,388**	**-**	**-**	**-**	**(5,426)**	**-**	**-**	**-**
Shares issued on acquisitions	**36**	**7,638**	**-**	**-**	**-**	**-**	**7,674**	**-**	**7,674**
Movement in relation to share-based payments	**-**	**-**	**-**	**-**	**-**	**600**	**600**	**-**	**600**
Tax on share-based payments	**-**	**-**	**-**	**-**	**-**	**167**	**167**	**-**	**167**
Dividends to owners of the parent	**-**	**-**	**-**	**-**	**-**	**(6,759)**	**(6,759)**	**-**	**(6,759)**
Movement due to ESOP share purchases	**-**	**-**	**-**	**-**	**(15)**	**-**	**(15)**	**-**	**(15)**
Movement due to ESOP share option exercises	**-**	**-**	**-**	**-**	**15**	**-**	**15**	**-**	**15**
Movement on reserves for non-controlling interests	**-**	**-**	**-**	**-**	**-**	**(674)**	**(674)**	**674**	**-**
Non-controlling dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(760)**	**(760)**
At 31 January 2020	**2,163**	**76,019**	**(2,673)**	**7,561**	**608**	**29,618**	**113,296**	**(585)**	**112,711**

[1] Other reserves include ESOP reserve, the treasury reserve, the merger reserve and the hedging reserve.
[2] Refer to note 12 for the restatement required following adoption of IFRS 16.

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

	Year ended 31 January 2020	Year ended 31 January 2019
	£'000	£'000
Cash flows from operating activities		
Profit for the period	2,839	14,526
Adjustments for:		
Depreciation	4,505	4,199
Right of use depreciation	8,691	-
Amortisation	13,211	9,624
Finance expense	16,672	6,584
Finance income	(2,611)	(4,667)
Share of profit from equity accounted associate	(204)	(65)
Loss on sale of property, plant and equipment	1,360	202
Loss on exit of finance lease	14	-
Income tax expense	2,717	4,299
Share-based payment charge	600	2,510
Net cash inflow from operating activities before changes in working capital	**47,794**	**37,212**
Change in trade and other receivables	1,971	(8,013)
Change in trade and other payables	(1,950)	7,629
Change in other liabilities	1,686	1,554
	1,707	1,170
Net cash generated from operations before tax outflows	**49,501**	**38,382**
Income taxes paid	(5,993)	(6,237)
Net cash inflow from operating activities	**43,508**	**32,145**
Cash flows from investing activities		
Acquisition of subsidiaries and trade and assets, net of cash acquired	(18,501)	(19,281)
Payment of contingent and deferred consideration	(5,622)	(9,265)
Purchase of equity investments designated at FVTOCI	(50)	(1,008)
Acquisition of property, plant and equipment	(3,460)	(5,648)
Proceeds on disposal of property, plant and equipment	23	71
Proceeds on disposal of subsidiary	466	-
Acquisition of intangible assets	(1,831)	(2,384)
Net movement in long-term cash deposits	(24)	132
Income from finance lease receivables	547	-
Interest received	112	229
Net cash outflow from investing activities	**(28,340)**	**(37,154)**

NEXT FIFTEEN COMMUNICATIONS GROUP PLC

CONSOLIDATED STATEMENT OF CASH FLOW *(Continued)*

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

	Year ended 31 January 2020	Year ended 31 January 2019
	£'000	£'000
Cash flows from financing activities		
Proceeds on issue of share capital	-	20,000
Issue costs on issue of ordinary shares	-	(539)
Capital element of finance lease rental repayment	(11,367)	(5)
Increase in bank borrowings and overdrafts	27,045	39,096
Repayment of bank borrowings and overdrafts	(14,006)	(50,018)
Interest paid	(979)	(1,246)
Dividend and profit share paid to non-controlling interest partners	(760)	(1,400)
Dividends paid to shareholders of the parent	(6,759)	(5,243)
Net cash (outflow) / inflow from financing activities	**(6,826)**	**645**
Net increase / (decrease) in cash and cash equivalents	**8,342**	**(4,364)**
Cash and cash equivalents at beginning of the period	20,501	24,283
Exchange (losses) / gains on cash held	(182)	582
Cash and cash equivalents at end of the period	**28,661**	**20,501**

NOTES TO THE YEAR END RESULTS

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

1) BASIS OF PREPARATION

The financial information in these results has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The principal accounting policies used in preparing the results are those the Group has applied in its financial statements for the year ended 31 January 2019 except for the adoption of the following accounting standards effective for the Group from 1 February 2019:

- IFRS 16 *Leases*

Refer to note 12 for further details on the impact on the Group's results and the adjustments made to prior periods.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 January 2020 or 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the company's annual general meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

Going concern statement

The Directors have, at the time of approving this financial information, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this financial information. The Directors have made this assessment in light of reviewing the Group's budget and cash requirements for a period in excess of one year from the date of signing of the annual report and considered outline plans for the Group thereafter.

In light of the global health crisis around the outbreak of Covid-19, the future performance of the Group is anticipated to be affected, but it remains too early to assess the impact the unfolding situation will have on trading for the year ahead. The Group has therefore carried out additional specific sensitivity analysis on the assumptions used in the cashflow forecast. The Board are satisfied, having considered the sensitivity analysis, that the Group will continue to generate sufficient cash to continue in operational existence and comply with its covenant obligations for the foreseeable future.

2) SEGMENT INFORMATION

Measurement of operating segment profit

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted operating profit before intercompany recharges, which reflects the internal reporting measure used by the Board of Directors. This measurement basis excludes the effects of certain fair value accounting charges, amortisation of acquired intangibles, brand equity incentive scheme charges and other costs not associated with the underlying business. Other information provided to them is measured in a manner consistent with that in the financial statements. Head office costs relate to Group costs before allocation of intercompany charges to the operating segments. Intersegment transactions have not been separately disclosed as they are not material. The Board of Directors does not review the assets and liabilities of the Group on a segmental basis and therefore this is not separately disclosed.

NOTES TO THE YEAR END RESULTS *(Continued)*

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

	UK	EMEA	US	Asia Pacific	Head Office	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Year ended 31 January 2020						
Revenue	**119,551**	**10,631**	**153,481**	**17,048**	**–**	**300,711**
Net revenue	**97,377**	**8,820**	**127,563**	**14,709**	**–**	**248,469**
Adjusted operating profit / (loss)	**20,366**	**1,619**	**27,155**	**2,367**	**(9,051)**	**42,456**
Adjusted operating profit / (loss) after interest on lease liabilities [1]	**20,094**	**1,587**	**26,421**	**2,299**	**(9,541)**	**40,860**
Adjusted operating profit margin[2]	**20.6%**	**18.0%**	**20.7%**	**15.6%**	**–**	**16.4%**
Organic net revenue growth/(decline)	**0.3%**	**0.4%**	**(4.6)%**	**4.8%**	**–**	**(2.0)%**
Year ended 31 January 2019						
Revenue	109,161	10,267	136,290	16,695	–	272,413
Net revenue	83,528	8,735	117,911	13,919	–	224,093
Adjusted operating profit / (loss)	20,482	1,504	22,047	2,207	(9,284)	36,956
Adjusted operating profit margin	24.5%	17.2%	18.7%	15.9%	–	16.5%
Organic net revenue growth/(decline)	15.5%	7.3%	2.8%	(2.1%)	–	6.4%

[1] The application of IFRS 16 has led to operating lease charges previously recognised within operating profit to now be partially recognised in interest costs. We have therefore presented the current period operating profit after interest on finance lease liabilities to give a comparable figure to the prior year.

[2] Operating profit margin is calculated using the adjusted operating profit after interest on finance lease liabilities in the current period in order to be comparable to the prior period. Adjusted operating profit margin is calculated based on net revenue.

During the year, the Board of Directors also received information on the performance of the Group by operating segment in additional to regional performance.

	Brand marketing	Data and analytics	Creative technology	Head Office	Total
	£'000	£'000	£'000	£'000	£'000
Year ended 31 January 2020					
Revenue	**160,242**	**59,446**	**81,023**	**–**	**300,711**
Net revenue	**135,036**	**45,054**	**68,379**	**–**	**248,469**
Adjusted operating profit / (loss)	**30,750**	**12,722**	**8,035**	**(9,051)**	**42,456**
Adjusted operating profit / (loss) after interest on lease liabilities[1]	**29,930**	**12,697**	**7,774**	**(9,541)**	**40,860**
Adjusted operating profit margin[2]	**22.2%**	**28.2%**	**11.4%**	**–**	**16.4%**
Organic net revenue growth/(decline)	**(5.7)%**	**19.3%**	**(2.1)%**	**–**	**(2.0)%**
Year ended 31 January 2019					
Revenue	158,316	33,757	80,340	–	272,413
Net revenue	133,163	23,209	67,721	–	224,093
Adjusted operating profit / (loss)	29,580	7,171	9,489	(9,284)	36,956
Adjusted operating profit margin	22.2%	30.9%	14.0%	–	16.5%
Organic net revenue growth	0.1%	30.6%	17.0%	–	6.4%

[1] The application of IFRS 16 has led to operating lease charges previously recognised within operating profit to now be partially recognised in interest costs. We have therefore presented the current period operating profit after interest on finance lease liabilities to give a comparable figure to the prior year.

[2] Operating profit margin is calculated using the adjusted operating profit after interest on finance lease liabilities in the current period in order to be comparable to the prior period. Adjusted operating profit margin is calculated based on net revenue.

NOTES TO THE YEAR END RESULTS *(Continued)*

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

A reconciliation of segment adjusted operating profit after interest on finance lease liabilities to segment adjusted operating profit and statutory operating profit is provided as follows:

	Year ended 31 January 2020	Year ended 31 January 2019
	£'000	£'000
Segment adjusted operating profit after interest on finance lease liabilities	**40,860**	**36,956**
Interest on finance lease liabilities	1,596	-
Segment adjusted operating profit	**42,456**	**36,956**
Amortisation of acquired intangibles	(12,099)	(9,046)
Share based payment charge and charges associated with equity transactions accounted for as share-based payments (note 3)	(374)	(1,311)
Employment linked acquisition payments (note 3)	(5,029)	(821)
Charge associated with office moves (note 3)	-	(173)
Current period restructure (note 3)	(4,596)	(4,353)
Deal costs (note 3)	(945)	(575)
Total operating profit	**19,413**	**20,677**

NOTES TO THE YEAR END RESULTS *(Continued)*

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

3) RECONCILIATION OF ADJUSTED RESULTS

	Year ended 31 January 2020	Year ended 31 January 2019
	£'000	£'000
Profit before income tax	**5,556**	**18,825**
Unwinding of discount on deferred and contingent consideration and share purchase obligation payable[1]	3,552	2,806
Change in estimate of future contingent consideration and share purchase obligation payable[1]	8,086	(1,906)
Share-based payment charge[2]	374	1,311
Employment linked acquisition payments[3]	5,029	821
Charge associated with current period restructure[4]	4,596	4,353
Charge associated with office moves	-	173
Deal costs[5]	945	575
Amortisation of acquired intangibles[6]	12,099	9,046
Adjusted profit before income tax	**40,237**	**36,004**
Operating profit	**19,413**	**20,677**
Depreciation of property, plant and equipment	4,505	4,199
Depreciation of right-of-use assets	8,691	-
Amortisation of intangible assets	13,211	9,624
EBITDA	**45,820**	**34,500**
Share-based payment charge[2]	374	1,311
Employment linked acquisition payments[3]	5,029	821
Charge associated with current period restructure[4]	4,596	4,353
Charge associated with office moves	-	173
Deal costs[5]	945	575
Adjusted EBITDA	**56,764**	**41,733**

[1] The Group adjusts for the remeasurement of the acquisition-related liabilities within the adjusted performance measures in order to aid comparability of the Group's results year on year as the charge/credit from remeasurement can vary significantly depending on the underlying brand's performance.
[2] This charge relates to transactions whereby a restricted grant of brand equity was given to key management in M Booth & Associates LLC. (2019: M Booth & Associates LLC, Encore Digital Media Limited, Twogether Creative Limited, Savanta Group Limited and ODD London Limited) at nil cost which holds value in the form of access to future profit distributions as well as any future sale value under the performance-related mechanism set out in the share sale agreement. This value is recognised as a one-off share-based payment in the income statement in the year of grant as the agreements do not include service requirements, thus the cost accounting is not aligned with the timing of the anticipated benefit of the incentive, namely the growth of the relevant brands.
[3] This charge relates to payments linked to the continuing employment of the sellers which is being recognised over the required period of employment. Although these costs are not exceptional or non-recurring, the Group determined they should be excluded from the underlying performance as the costs solely relate to acquiring the sellers business.
[4] In the current period the Group has incurred restructuring costs in relation to the ongoing relaunch of the new Archetype brand in the UK and US along with the rebranding of the Savanta brands, in addition to writing off intangibles and other staff related redundancy costs. These costs relate to these specific transformational events; they do not relate to underlying trading of the relevant brand and therefore have been added back to aid comparability of performance year on year.
[5] This charge relates to third party professional fees incurred during acquisitions and restructures, note 11.
[6] In line with its peer group, the Group adds back amortisation of acquired intangibles. Judgement is applied in the allocation of the purchase price between intangibles and goodwill, and in determining the useful economic lives of the acquired intangibles. The judgements made by the Group are inevitably different to those made by our peers and as such amortisation of acquired intangibles been added back to aid comparability.

Adjusted profit before income tax and adjusted EBITDA have been presented to provide additional information which may be useful to the reader. Adjusted profit before income tax is a measure of performance used in the calculation of the adjusted earnings per share. This measure is considered to best represent the underlying performance of the business and so it is used for the vesting of employee performance shares.

NOTES TO THE YEAR END RESULTS *(Continued)*

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

4) TAXATION

The tax charge on adjusted profit for the year ended 31 January 2020 is £8,046,000, equating to an adjusted effective tax rate of 20%, compared to 20% in the prior year. The Group's underlying corporation tax rate is expected to remain higher than the standard UK rate for the foreseeable future due to the higher rate of tax the Group suffers on its overseas profits.

5) DIVIDENDS

Given the macroeconomic backdrop due to Covid-19, the Group has decided to suspend the final dividend, although it intends to resume dividend payments once the macroeconomic environment improves. This makes the total dividend for the year 2.5p per share (2019: 7.56p).

6) FINANCE EXPENSE

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
Financial liabilities at amortised cost		
Bank interest payable	977	1,235
Interest on lease liabilities[1]	1,596	-
Financial liabilities at fair value through profit and loss		
Unwinding of discount on deferred and contingent consideration and share purchase obligation payable[1]	3,552	2,806
Change in estimate of future contingent consideration and share purchase obligation payable[1]	10,545	2,532
Other		
Other interest payable	2	11
Finance expense	**16,672**	**6,584**

[1]These items are adjusted for in calculating the adjusted net finance expense.

7) FINANCE INCOME

	Year ended 31 January 2020 £'000	Year ended 31 January 2019 £'000
Financial assets at amortised cost		
Bank interest receivable	99	82
Finance lease interest receivable	40	-
Financial liabilities at fair value through profit and loss		
Change in estimate of future contingent consideration and share purchase obligation payable[1]	2,459	4,438
Other interest receivable	13	147
Finance income	**2,611**	**4,667**

[1]These items are adjusted for in calculating the adjusted net finance expense.

8) EARNINGS PER SHARE

	Year ended 31 January 2020	Year ended 31 January 2019
	£'000	£'000
Earnings attributable to ordinary shareholders	2,262	13,887
Unwinding of discount on future deferred and contingent consideration and share purchase obligation payable	3,138	2,698
Change in estimate of future contingent consideration and share purchase obligation payable	6,395	(1,959)
Share based payment charge	572	2,042
Costs associated with current period restructure	3,746	3,501
Costs associated with office moves	-	136
Amortisation of acquired intangibles	9,607	7,300
Employment linked acquisition payments	5,010	-
Deal costs	882	560
Adjusted earnings attributable to ordinary shareholders	31,612	28,165
	Number	**Number**
Weighted average number of ordinary shares	85,284,663	79,225,075
Dilutive LTIP shares	755,018	1,193,361
Dilutive growth deal shares	2,983,371	3,733,183
Other potentially issuable shares	1,913,430	864,585
Diluted weighted average number of ordinary shares	90,936,482	85,016,204
Basic earnings per share	2.7p	17.5p
Diluted earnings per share	2.5p	16.3p
Adjusted earnings per share	37.1p	35.6p
Diluted adjusted earnings per share	34.8p	33.1p

Adjusted and diluted adjusted earnings per share have been presented to provide additional information which may be useful to shareholders through facilitating comparability with industry peers. The adjusted earnings per share is the performance measure used for the vesting of employee performance shares. The only difference between the adjusting items in this note and the figures in note 3 is the tax effect of those adjusting items.

NOTES TO THE YEAR END RESULTS *(Continued)*

FOR THE YEARS ENDED 31 JANUARY 2020 AND 31 JANUARY 2019

9) NET DEBT

The HSBC Bank revolving credit facility expires in 2022 and therefore the outstanding balance has been classified in non-current borrowings with the exception of £5m of the term loan which is due for repayment within one year.

	31 January 2020	31 January 2019
	£'000	£'000
Total loans and borrowings	38,007	25,678
Less: cash and cash equivalents	(28,661)	(20,501)
Net debt	**9,346**	**5,177**
Share purchase obligation	3,367	1,736
Contingent consideration	42,181	24,712
Deferred consideration	2,715	4,646
Net debt and acquisition related liabilities	**57,609**	**36,271**

10) OTHER FINANCIAL LIABILITIES

	Deferred consideration	Contingent consideration	Share purchase obligation
	£'000	£'000	£'000
At 31 January 2018	6,039	18,639	955
Arising during the year	-	15,516	765
Exchange differences	-	(312)	78
Utilised	(5,066)	(6,171)	(249)
Unwinding of discount	601	2,078	127
Change in estimate	-	(1,966)	60
Reclassification	3,072	(3,072)	-
At 31 January 2019	4,646	24,712	1,736
Arising during the year	350	14,445	-
Exchange differences	-	(726)	7
Utilised	(2,667)	(5,425)	(453)
Unwinding of discount	386	3,008	158
Change in estimate	-	6,167	1,919
At 31 January 2020	**2,715**	**42,181**	**3,367**
Current	**2,715**	**15,366**	**1,269**
Non-current	**-**	**26,815**	**2,098**

11) ACQUISITIONS AND OTHER SIGNIFICANT TRANSACTIONS

M Booth Health

On 1 October 2019 the Group purchased the entire issued share capital of Creston Plc US Holdings Inc and its subsidiary Health Unlimited LLC ("Health Unlimited"), a global health consultancy and communications agency, for initial consideration of $27.7m. Following the acquisition, Health Unlimited has traded as a member of the M Booth group, having been rebranded M Booth Health. Further deferred consideration may be payable in May 2020 and May 2021 dependent on the EBITDA performance of M Booth Health for the years ending 31 March 2020 and 31 March 2021 respectively.

In total the Group spent £24.2m on acquisitions, investments in financial assets and earn-out related payments in the year as shown in the cash flow as £18.5m, £0.1m and £5.6m respectively.

Impact of Coronavirus

In light of the global health crisis around the outbreak of Covid-19, the Group considered whether any adjustments are required to the reported results in the financial statements. As at the balance sheet date of 31 January 2020, there had been no global pandemic declared, and the outbreak of Covid-19 was limited to China, where the Group has limited operations. The subsequent macroeconomic downturn and extent of global interventions were not apparent.

Subsequent to the balance sheet date, the World Health Organisation declared a pandemic on 11 March and we have seen a significant downturn in the global economic outlook. As a result, the Group has concluded that the necessity for large scale interventions and other information received was not indicative of conditions that existed at the balance sheet date and therefore that the consequences of such interventions represent non-adjusting post balance sheet events. Given the global scale of the situation, further explanation of the impact of changing the estimates and assumptions presented in the financial statements are given below.

In terms of current trading, we have yet to see any material impact on the business overall and we have seen some benefit from the strength of the US dollar versus Sterling and some clients switching spend away from live events into digital marketing and lead generation. We have also yet to see any material impact on our recoverability of trade debtors. However, we do anticipate our business will be impacted as the wider economic impact of Covid-19 increases. It remains too early to assess the impact that this unfolding situation will have on trading for the year ahead.

The Group has therefore carried out further sensitivity analysis on the assumptions used in the value-in-use calculations for the purposes of the goodwill impairment review. Using a revised brand specific FY21 budget to calculate the value in use for each cash-generating unit, would indicate an impairment in the range of £0 - £1.5m for the Group.

The Group also uses key assumptions when determining the value of contingent consideration and share purchase obligations relation to acquisitions, including judgements around future revenue growth and profit margins. Therefore, as a result of the impact of Covid-19, these assumptions are likely to change, as such this will result in a material adjustment to the value of these liabilities within the next financial year.

Deferred tax assets are only recognised to the extent it is probable there will be future taxable profits. Subsequent to the balance sheet date, the Group has reviewed the current impact of Covid-19 on those future taxable profits and concluded that Deferred tax assets can continue to be recognised in full.

12) CHANGE IN ACCOUNTING POLICY

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 February 2019, where they are different to those applied in prior periods.

IFRS 16

The Group applied IFRS 16 with a date of initial application of 1 February 2019. IFRS 16 requires lessees to account for all leases on-balance sheet, recognising a right-of-use asset and a lease liability at the lease commencement date. The Group has adopted IFRS 16 using the modified retrospective approach therefore comparative information has not been restated and the Group has recognised the cumulative effect of adopting IFRS 16 as an adjustment to equity at the start of the current period. The comparative information continues to be reported under IAS 17.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to transactions that were previously identified as leases. Therefore, the definition of a lease under IFRS 16 was only applied to contracts entered into or changed from 1 February 2019.

As a lessee the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of the ownership of the asset to the Group. Under IFRS 16 the Group recognised a right-of-use asset and lease liability i.e. all leases are recognised on-balance sheet.

At transition, the lease liabilities were measured at the present value of the remaining lease payments using the lessee's incremental borrowing rate as at 1 February 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 February 2019 was 3%. The right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's borrowing rate at the 1 February 2019. The Group used the following practical expedients when applying IFRS 16:

- Adjusted the right-of-use assets for any onerous lease provisions immediately before the date of initial application rather than perform an impairment review;
- Applied the exemption not to recognise a right-of-use asset or lease liability for leases of low value or with lease terms with less than 12 months remaining at 1 February 2019; and
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

Impact of the financial statements

On transition to IFRS 16 the Group recognised an additional £44.4m of right-of-use assets and £55.2m of lease liabilities, with a reduction in other creditors and provisions with regard to amounts relating to property leases, which are now recognised in the right-of-use asset. These movements resulted in a decrease to retained earnings of £1.8m and the recognition of a deferred tax asset of £0.4m.